

DIRECT TESTIMONY

of

**Dianna Hathhorn
Accountant**

**Accounting Department
Financial Analysis Division
Illinois Commerce Commission**

Request for Increase in Water Rates

Cherry Hill Water Company

Docket No. 03-0401

August 28, 2003

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1 Q. Please state your name and business address.

2 A. My name is Dianna Hathhorn. My business address is 527 East Capitol
3 Avenue, Springfield, Illinois 62701.

4

5 Q. By whom are you employed and in what capacity?

6 A. I am an Accountant in the Accounting Department of the Financial
7 Analysis Division of the Illinois Commerce Commission ("Commission" or
8 "ICC").

9

10 Q. What is the function of the Commission's Accounting Department?

11 A. The Department's function is to monitor the financial condition of public
12 utilities as part of the Commission's responsibilities under Article IV of the
13 Public Utilities Act and to provide accounting expertise on matters before
14 the Commission.

15

16 Q. Please describe your background and professional affiliation.

17 A. I am a licensed Certified Public Accountant. I earned a B.S. in Accounting
18 from Illinois State University in 1993. Prior to joining the Commission in
19 1998, I worked as an internal auditor for another Illinois state agency for
20 approximately 3.5 years. I also have 1.5 years experience in public
21 accounting for a national firm.

22

23 Q. Have you previously testified before this Commission?

24 A. Yes, I have.

25

26 Q. What are your responsibilities in this case?

27 A. I have been assigned to this case by the Manager of the Commission's
28 Accounting Department. I am to review Cherry Hill Water Company's
29 ("Company") filing, analyze the underlying data and propose adjustments
30 when appropriate.

31

32 Purpose of Testimony

33 Q. What is the purpose of your testimony in this proceeding?

34 A. The purpose of my testimony is as follows:

- 35 1. to present the Commission Staff's ("Staff") adjusted operating
36 statements and rate base of the Company;
37 2. to propose adjustments to the Company's operating statement
38 and rate base concerning add-on taxes, insurance expense,
39 income taxes, health insurance, rate case expense, monthly
40 billing expense, and deferred taxes.

41

42 Q. Are you sponsoring any schedules with your testimony?

43 A. Yes. I prepared the following schedules for the Company, which show
44 data as of, or for the test year ending December 31, 2002:

45 Revenue Requirement Schedules

46	Schedule 1.1 -	Statement of Operating Income with Adjustments
47	Schedule 1.2 -	Adjustments to Operating Income
48	Schedule 1.3 -	Rate Base
49	Schedule 1.4 -	Adjustments to Rate Base
50	Schedule 1.5 -	Interest Synchronization Adjustment
51	Schedule 1.6 -	Gross Revenue Conversion Factor

52

53 Adjustment Schedules

54	Schedule 1.7 -	Adjustment for Add-On Taxes
55	Schedule 1.8 -	Adjustment to Non-Health Insurance Expense
56	Schedule 1.9 -	Adjustment to Income Taxes
57	Schedule 1.10-	Adjustment to Health Insurance Expense
58	Schedule 1.11-	Adjustment to Rate Case Expense
59	Schedule 1.12 -	Adjustment to Monthly Billing Expense
60	Schedule 1.13 -	Adjustment to Deferred State Income Taxes

61

62 Revenue Requirement Schedules

- 63 Q. Please describe Schedule 1.1, Statement of Operating Income with
- 64 Adjustments.
- 65 A. Schedule 1.1 derives the required revenue at the Staff proposed rate of
- 66 return. Column (B) presents the Company's pro forma operating

67 statement at present rates for the test year as reflected on Company
68 Schedule B. Column (C) reflects the total of all Staff adjustments shown
69 on Schedule 1.2. Column (D) reflects the pro forma operating statement
70 at present rates per Staff. Column (E) presents the Company proposed
71 increase to revenue. Column (F) adjusts revenue to reflect Staff's Gross
72 Revenue Conversion Factor. Column (G) is Staff's Operations and
73 Maintenance ("O&M") Statement inclusive of the Company's proposed
74 revenue increase. Column (H) is the necessary reduction from the
75 Company's proposed revenues, adjusted for Staff's Gross Revenue
76 Conversion Factor, to arrive at Staff's computed revenue requirement as
77 reflected in Column (I). Net Operating Income in Column (I), line 21, is
78 the product of Rate Base, line 22, and Rate of Return, line 23. Column (I),
79 line 24, is the difference between current revenues and required revenues
80 as determined by Staff. Column (I), line 25, is Staff's calculated
81 percentage change in revenues.

82

83 Q. Please describe Schedule 1.2, Adjustments to Operating Income.

84 A. Schedule 1.2 identifies Staff's adjustment to Operating Income. The
85 source of each adjustment is shown in the heading of each column.
86 Column (Q) from page 2 of 2 is carried forward to Schedule 1.1, Column
87 (C).

88

89 Q. Please describe Schedule 1.3, Rate Base.

90 A. Schedule 1.3 compiles Staff's rate base. Column (B) reflects the
91 Company's proposed rate base. Column (C) summarizes Staff's
92 adjustments to rate base. Column (D) is the net of Columns (B) and (C),
93 and reflects Staff's computed rate base.

94

95 Q. Please describe Schedule 1.4, Adjustments to Rate Base.

96 A. Schedule 1.4 identifies Staff's adjustments to rate base. The source of
97 each adjustment is shown in the heading of each column. Column (I) is
98 carried forward to Schedule 1.3, Column (C).

99

100 Interest Synchronization

101 Q. Please explain Schedule 1.5, Interest Synchronization Adjustment.

102 A. Schedule 1.5 computes the interest component of the revenue
103 requirement. The interest expense (component) is computed by
104 multiplying the rate base by weighted cost of debt. The calculated interest
105 expense is then compared against the interest expense used by the
106 Company in its computation of test year income tax expense. The tax
107 effect of the difference in interest expense is the adjustment for interest
108 synchronization. The effect of this adjustment is to ensure that the
109 revenue requirement reflects the tax savings generated by the interest
110 component of the revenue requirement.

111

112 Gross Revenue Conversion Factor

113 Q. What is the purpose of Schedule 1.6, Gross Revenue Conversion Factor?

114 A. Schedule 1.6 presents my proposed adjustment to the gross revenue
115 conversion factor ("GRCF"). The GRCF is applied to the operating
116 income deficiency to derive the total amount of revenue required for the
117 income deficiency and the associated increase in income tax expense and
118 uncollectible expense change. It is based upon the applicable federal tax
119 rate, State income tax rate, and uncollectible rate. This adjustment to the
120 various components of the GRCF is carried forward to Schedule 1.1,
121 Column (F).

122

123 Adjustment for Add-On Taxes

124 Q. Please describe Schedule 1.7, Adjustment for Add-On Taxes

125 A. Schedule 1.7 reflects my proposed adjustment to operating expense to
126 disallow public utility taxes at present rates. Gross revenues taxes are an
127 add-on charge to customers' bills, are not an actual operating expense of
128 the utility, and therefore, should not be a part of tariffed rates. According to
129 the Company's response to Staff Data Request DLH-2.10, these amounts
130 are not recorded in revenues; though, so no corresponding adjustment is
131 needed to the revenues amounts in the revenue requirement. My

132 adjustment is consistent with the Commission's practice to remove add-
133 on taxes from both revenues and expenses.

134

135 Adjustment to Non-Health Insurance Expense

136 Q. Please describe Schedule 1.8, Adjustment to Non-Health Insurance
137 Expense.

138 A. Schedule 1.8 reflects my proposed adjustment to operating expense to
139 disallow amounts from the Company's pro forma increase to insurance
140 expense for amounts that are not known and measurable. The
141 Company's requested increase is based on calculated amounts for auto,
142 property, and worker's compensation premiums for 2004. My adjustment
143 uses the 2003 rates for the 12-month period. The Company's estimate is
144 based only on the percentage change in premiums from 2003 to 2004.
145 The Company stated it would not receive its 2004 rates until
146 approximately September 2003. (Company response to Staff Data
147 Request DLH-3.01) If this timing is correct and the documentation is
148 provided to me, I will revise my adjustment in rebuttal testimony to reflect
149 the most recent known and measurable insurance rates. Until that time,
150 the 2003 rates are proper to use.

151

152 Adjustment to Income Taxes

153 Q. Please describe Schedule 1.9, Adjustment to Income Taxes.

154 A. Schedule 1.9 presents my adjustment to state and federal income tax
155 expense in the test year based on the use of a unitary state income tax
156 rate. The Company pays its Illinois state income tax as a member of a
157 unitary business group. Therefore, it is appropriate to use a unitary tax
158 rate in determining the revenue requirement. This issue was previously
159 litigated in Docket No. 98-0046, which was a rate case of an affiliate of the
160 Company that uses the same income tax expense methods. The
161 Commission concluded in that docket that the unitary tax rate is proper for
162 ratemaking purposes.

163

164 Q. How was the unitary tax rate calculated?

165 A. The unitary tax rate that I use in my proposed adjustment is the average
166 of the effective unitary tax rates for 1999 and 2000, which were calculated
167 by dividing Utilities, Inc.'s Illinois state income tax liability for the
168 respective year by its total state taxable income for that year.

169

170 Q. Why was the effective unitary tax rate for 2002 or 2001 not used in the
171 calculation of the unitary tax rate for the test year?

172 A. The Company has not yet filed its 2002 taxes. Also, the 2001 Illinois state
173 income tax liability for Utilities, Inc. is zero; therefore, there is no Illinois
174 state income tax rate for 2001. For ratemaking purposes, it is reasonable

175 to calculate a unitary tax rate based on the two most recent years in which
176 Utilities, Inc. incurred Illinois income tax liability.

177

178 Adjustment to Health Insurance Expense

179 Q. Please describe Schedule 1.10, Adjustment to Health Insurance Expense.

180 A. Schedule 1.10 presents my adjustment to operating expense to reflect the
181 most recent information available to calculate pro forma health insurance
182 expense over a 12-month period. The Company's adjustment is based
183 upon the percentage change of the affected health and dental insurance
184 accounts at 3/31/2003 compared to the same accounts at 3/31/2002,
185 resulting in a 106.08% increase. My adjustment uses the 6/30/2003
186 account balances to calculate an annualized 2003 expense. I then
187 compare my calculated 12/31/2003 amount to the 12/31/2002 balance to
188 determine the estimated percentage increase over the entire year, which
189 is 27.34%. As my calculation is based upon more recent actual Company
190 balances over a 12-month period, it is a better estimate of the increased
191 cost of health and dental insurance.

192

193 Adjustment to Rate Case Expense

194 Q. Please describe Schedule 1.11, Adjustment to Rate Case Expense.

195 A. Schedule 1.11 reflects my proposed adjustment to operating expense to
196 reduce the amount of Company hours on this case, and to change the

197 amortization period from three to five years. The Company estimated one
198 of its employees would spend 20 hours on this case, however timesheets
199 provided by the Company show that this employee has only spent about
200 two hours on this case through 6/30/2003. (Company response to Staff
201 Data Request DLH-8.02) My adjustment is based upon an estimate that
202 this employee will spend about as much time in the last phase of this case
203 as the beginning, which calculates to 5 hours total for this employee.
204 Finally, the Company is seeking to recover the cost of the rate case over
205 three years. I propose that these costs be recovered over 5 years. The
206 Company's current rate structure was approved in Docket No. 94-0368 by
207 the Commission, dated July 6, 1995. Given the amount of time that has
208 elapsed since then, I believe that five years is a more appropriate and
209 reasonable amortization period.

210

211 Adjustment to Monthly Billing Expense

212 Q. Please describe Schedule 1.12, Adjustment to Monthly Billing Expense.
213 A. Schedule 1.12 reflects my proposed adjustment to operating expense to
214 reflect updated costs for the Company's change to monthly billing. The
215 cost information provided in discovery, in data request response DLH-
216 3.06, differed from the amounts filed by the Company in its direct case.
217 Therefore, my adjustment is necessary to reflect the proper amounts for

218 the Company's pro forma adjustment for changing to monthly billing. It is
219 my understanding that the Company agrees with this adjustment.

220

221 Adjustment to Deferred State Income Taxes

222 Q. Please describe Schedule 1.13, Adjustment to Deferred State Income
223 Taxes.

224 A. Schedule 1.13 reflects my proposed adjustment to operating income to
225 correct the presentation of deferred state income taxes. The Company's
226 response to Staff Data Request DLH-2.05 reflects that the Company had
227 an error in its original Schedule B. My adjustment is necessary to reflect
228 that correction.

229

230 Q. Does this conclude your prepared direct testimony?

231 A. Yes, it does.

Cherry Hill Water Company
Statement of Operating Income with Adjustments
For the Test Year Ending December 31, 2002

Line No.	Description	Company Pro Forma Present (Co. Sch. B)	Staff Adjustments (Sch. 1.2)	Staff Pro Forma Present (Cols. b+c)	Company Proposed Increase (Co. Sch. B)	Staff Gross Revenue Conversion Factor	Proposed Rates With Staff Adjustments (Cols. d+e+f)	Adjustment To Proposed Increase	Staff Pro Forma Proposed (Cols. g+h)
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)
1	Operating Revenue	\$ 89,054	\$ -	\$ 89,054	\$ 13,500	\$ (470)	\$ 102,084	\$ (7,171)	\$ 94,913
2		-	-	-	-	-	-	-	-
3	Total Operating Revenue	89,054	-	89,054	13,500	(470)	102,084	(7,171)	94,913
4	Uncollectible Accounts	95	-	95	15	(1)	109	(8)	101
5	Maintenance Expenses	43,510	-	43,510	-	-	43,510	-	43,510
6	General Expenses	19,321	(3,547)	15,774	-	-	15,774	-	15,774
7	Depreciation	5,520	-	5,520	-	-	5,520	-	5,520
8	Amortization of CIAC	(85)	-	(85)	-	-	(85)	-	(85)
9	Taxes Other Than Income	10,973	(89)	10,884	41	(41)	10,884	-	10,884
10		-	-	-	-	-	-	-	-
11		-	-	-	-	-	-	-	-
12		-	-	-	-	-	-	-	-
13		-	-	-	-	-	-	-	-
14		-	-	-	-	-	-	-	-
15	Total Operating Expense								
16	Before Income Taxes	79,334	(3,636)	75,698	56	(42)	75,712	(8)	75,704
17	State Income Tax	130	(38)	92	672	(428)	336	(134)	202
18	Federal Income Tax	1,276	328	1,604	4,343	(1)	5,946	(2,390)	3,556
19	Deferred Taxes and ITCs Net	(613)	(94)	(707)	-	-	(707)	-	(707)
20	Total Operating Expenses	80,127	(3,441)	76,686	5,071	(470)	81,286	(2,532)	78,754
21	NET OPERATING INCOME	\$ 8,927	\$ 3,441	\$ 12,368	\$ 8,429	\$ 0	\$ 20,797	\$ (4,639)	\$ 16,158
22	Staff Rate Base (ICC Staff Exhibit 1.0, Schedule 1.3, Column (d))								\$ 190,321
23	Staff Overall Rate of Return (ICC Staff Exhibit 4.0, Schedule 4.1)								8.49%
24	Revenue Change (Col. (i) Line 3 minus Col. (d), Line 3)								\$ 5,859
25	Percentage Revenue Change (Col. (i), Line 24 divided by Col. (d), Line 3)								6.58%

Cherry Hill Water Company
Adjustments to Operating Income
For the Test Year Ending December 31, 2002

Line No.	Description	Interest Synchronization (Sch. 1.5)	Add-On Taxes (Sch. 1.7)	Non-Health Insurance (Sch. 1.8)	Income Taxes (Sch. 1.9)	Health Insurance (Sch. 1.10)	Rate Case Expense (Sch. 1.11)	Monthly Billing (Sch. 1.12)	Subtotal Operating Statement Adjustments
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)
1	Operating Revenue	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2		-	-	-	-	-	-	-	-
3	Total Operating Revenue	-	-	-	-	-	-	-	-
4	Uncollectible Accounts	-	-	-	-	-	-	-	-
5	Maintenance Expenses	-	-	-	-	-	-	-	-
6	General Expenses	-	-	(897)	-	(1,743)	(783)	(124)	(3,547)
7	Depreciation	-	-	-	-	-	-	-	-
8	Amortization of CIAC	-	-	-	-	-	-	-	-
9	Taxes Other Than Income	-	(89)	-	-	-	-	-	(89)
10		-	-	-	-	-	-	-	-
11		-	-	-	-	-	-	-	-
12		-	-	-	-	-	-	-	-
13		-	-	-	-	-	-	-	-
14		-	-	-	-	-	-	-	-
15	Total Operating Expense	-	(89)	(897)	-	(1,743)	(783)	(124)	(3,636)
16	Before Income Taxes	-	(89)	(897)	-	(1,743)	(783)	(124)	(3,636)
17	State Income Tax	(23)	2	17	(84)	33	15	2	(38)
18	Federal Income Tax	(418)	30	299	(466)	581	261	41	328
19	Deferred Taxes and ITCs Net	-	-	-	-	-	-	-	-
20	Total Operating Expenses	(441)	(57)	(581)	(551)	(1,129)	(507)	(81)	(3,347)
21	NET OPERATING INCOME	\$ 441	\$ 57	\$ 581	\$ 551	\$ 1,129	\$ 507	\$ 81	\$ 3,347

Cherry Hill Water Company
Adjustments to Operating Income
For the Test Year Ending December 31, 2002

Line No.	Description	Subtotal Operating Statement Adjustments	Deferred State Income Tax (Sch. 1, 13)	(Source)	(Source)	(Source)	(Source)	(Source)	Total Operating Statement Adjustments
	(a)	(j)	(k)	(l)	(m)	(n)	(o)	(p)	(q)
1	Operating Revenue	\$ -	\$ -	\$ -	-	-	-	\$ -	\$ -
2		-	-	-	-	-	-	-	-
3	Total Operating Revenue	-	-	-	-	-	-	-	-
4	Uncollectible Accounts	-	-	-	-	-	-	-	-
5	Maintenance Expenses	-	-	-	-	-	-	-	-
6	General Expenses	(3,547)	-	-	-	-	-	-	(3,547)
7	Depreciation	-	-	-	-	-	-	-	-
8	Amortization of CIAC	-	-	-	-	-	-	-	-
9	Taxes Other Than Income	(89)	-	-	-	-	-	-	(89)
10		-	-	-	-	-	-	-	-
11		-	-	-	-	-	-	-	-
12		-	-	-	-	-	-	-	-
13		-	-	-	-	-	-	-	-
14		-	-	-	-	-	-	-	-
15	Total Operating Expense	-	-	-	-	-	-	-	-
16	Before Income Taxes	(3,636)	-	-	-	-	-	-	(3,636)
17	State Income Tax	(38)	-	-	-	-	-	-	(38)
18	Federal Income Tax	328	-	-	-	-	-	-	328
19	Deferred Taxes and ITCs Net	-	(94)	-	-	-	-	-	(94)
20	Total Operating Expenses	(3,347)	(94)	-	-	-	-	-	(3,441)
21	NET OPERATING INCOME	\$ 3,347	\$ 94	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,441

Docket No. 03-0401
ICC Staff Exhibit 1.0
Schedule 1.3

Cherry Hill Water Company
Rate Base
For the Test Year Ending December 31, 2002

Line No.	Description	Company Pro Forma Rate Base (Co. Sch. C)	Staff Adjustments (Sch 1.4)	Staff Pro Forma Rate Base (Col. b+c)
	(a)	(b)	(c)	(d)
1	Gross Plant in Service	\$ 189,927	\$ -	\$ 189,927
2	Accumulated Depreciation	(10,386)	-	(10,386)
3		-	-	-
4	Net Plant	179,541	-	179,541
5	Additions to Rate Base			
6	Water Service Corporation	8,549	-	8,549
7	Cash Working Capital	9,225	(1,445)	7,780
8	Deferred Tank Painting	-	6,929	6,929
9		-	-	-
10		-	-	-
11		-	-	-
12		-	-	-
13		-	-	-
14		-	-	-
15		-	-	-
16	Deductions From Rate Base			
17	Contributions in Aid of Construction	(3,299)	-	(3,299)
18	Accumulated Deferred Income Taxes	(9,179)	-	(9,179)
19		-	-	-
20		-	-	-
21		-	-	-
22		-	-	-
23	Rate Base	\$ 184,837	\$ 5,484	\$ 190,321

Cherry Hill Water Company
Adjustments to Rate Base
For the Test Year Ending December 31, 2002

Line No.	Description	Cash Working Capital (Sch. 2.1)	Tank Painting (Sch. 2.2)	(Source)	(Source)	(Source)	(Source)	(Source)	Total Rate Base Adjustments
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)
1	Gross Plant in Service	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2	Accumulated Depreciation	-	-	-	-	-	-	-	-
3		-	-	-	-	-	-	-	-
4	Net Plant	-	-	-	-	-	-	-	-
5	Additions to Rate Base								
6	Water Service Corporation	-	-	-	-	-	-	-	-
7	Cash Working Capital	(1,445)	-	-	-	-	-	-	(1,445)
8	Deferred Tank Painting	-	6,929	-	-	-	-	-	6,929
9		-	-	-	-	-	-	-	-
10		-	-	-	-	-	-	-	-
11		-	-	-	-	-	-	-	-
12		-	-	-	-	-	-	-	-
13		-	-	-	-	-	-	-	-
14		-	-	-	-	-	-	-	-
15		-	-	-	-	-	-	-	-
16	Deductions From Rate Base								
17	Contributions in Aid of Construction	-	-	-	-	-	-	-	-
18	Accumulated Deferred Income Taxes	-	-	-	-	-	-	-	-
19		-	-	-	-	-	-	-	-
20		-	-	-	-	-	-	-	-
21		-	-	-	-	-	-	-	-
22		-	-	-	-	-	-	-	-
23	Rate Base	\$ (1,445)	\$ 6,929	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 5,484

Cherry Hill Water Company
Interest Synchronization Adjustment
For the Test Year Ending December 31, 2002

Line No.	Description	Amount
	(a)	(b)
1	Rate Base	\$ 190,321 (1)
2	Weighted Cost of Debt	4.49% (2)
3	Synchronized Interest Per Staff	8,545
4	Company Interest Expense	<u>7,293</u> (3)
5	Increase (Decrease) in Interest Expense	<u>1,252</u>
6	Increase (Decrease) in State Income Tax Expense	
7	at 1.876%	<u>\$ (23)</u>
8	Increase (Decrease) in Federal Income Tax Expense	
9	at 34.000%	<u>\$ (418)</u>

(1) Source: ICC Staff Ex. 1.0, Schedule 1.3, Column d.

(2) Source: ICC Staff Exhibit 4.0, Schedule 4.1.

(3) Source: Company Schedule B.

Docket No. 03-0401
ICC Staff Exhibit 1.0
Schedule 1.6

Cherry Hill Water Company
Gross Revenue Conversion Factor
For the Test Year Ending December 31, 2002

Line No.	Description	Rate	Per Staff With Bad Debts	Per Staff Without Bad Debts
	(a)	(b)	(c)	(d)
1	Revenues		1.000000	
2	Uncollectibles	0.1100%	<u>0.001100</u>	
3	State Taxable Income		0.998900	1.000000
4	State Income Tax	1.8763%	<u>0.018742</u>	<u>0.018763</u>
5	Federal Taxable Income		0.980158	0.981237
6	Federal Income Tax	34.0000%	<u>0.333254</u>	<u>0.333621</u>
7	Operating Income		<u>0.646904</u>	<u>0.647616</u>
8	Gross Revenue Conversion Factor Per Staff		<u>1.545824</u>	<u>1.544125</u>

Docket No. 03-0401
ICC Staff Exhibit 1.0
Schedule 1.7

Cherry Hill Water Company
Adjustment for Add-On Taxes
For the Test Year Ending December 31, 2002

Line No.	Description (a)	Amount (b)	Source (c)
1	Public Utility Taxes at present rates per Staff	\$ -	
2	Public Utility Taxes at present rates per Company	89	Company Workpaper f
3	Staff Proposed Adjustment	<u>\$ (89)</u>	Line 1 - line 2

Cherry Hill Water Company
Adjustment to Non-Health Insurance Expense
For the Test Year Ending December 31, 2002

Line No.	Description (a)	Amount (b)	Source (c)
1	2002 Insurance Expense for WSC	\$ 1,167,898	Company workpaper b
2	Estimated Auto Increase	71,055	Schedule 1.8, p. 2, line 6
3	Estimated Workers Comp. Increase	42,372	Schedule 1.8, p. 2, line 12
4	Estimated Property Increase	23,193	Schedule 1.8, p. 2, line 18
5	Total Pro Forma Insurance Expense for WSC	\$ 1,304,518	Sum of lines 1 through 4
6	Cherry Hill Allocation factor	0.3050%	Company workpaper b
7	Cherry Hill pro forma insurance expense	\$ 3,979	Line 5 x line 6
8	Amount per Company	4,876	Company workpaper b
9	Staff Proposed Adjustment	\$ (897)	Line 7 - line 8

Cherry Hill Water Company
Adjustment to Non-Health Insurance Expense
For the Test Year Ending December 31, 2002

Line No.	Description (a)	Amount (b)	Source (c)
1	<u>Calculation of Estimated Auto Increase:</u>		
2	2003 Monthly Rate	\$ 23,346	Per Company prepared schedule
3	x 12 months	12	
4	2003 Auto Insurance Cost	\$ 280,152	Line 2 x line 3
5	2002 Auto Insurance Cost	209,097	Per Company prepared schedule
6	Difference	<u>\$ 71,055</u>	Line 4 - line 5
7	<u>Calculation of Estimated Workers Comp. Increase:</u>		
8	2003 Monthly Rate	\$ 23,233	Per Company prepared schedule
9	x 12 months	12	
10	2003 Workers Comp. Cost	\$ 278,796	Line 8 x line 9
11	2002 Workers Comp. Cost	236,424	Per Company prepared schedule
12	Difference	<u>\$ 42,372</u>	Line 10 - line 11
13	<u>Calculation of Estimated Property Ins. Increase:</u>		
14	2003 Monthly Rate	\$ 10,115	Per Company prepared schedule
15	x 12 months	12	
16	2003 Property Ins. Cost	\$ 121,380	Line 14 x line 15
17	2002 Property Ins. Cost	98,187	Per Company prepared schedule
18	Difference	<u>\$ 23,193</u>	Line 16 - line 17

Cherry Hill Water Company
 Adjustment to Income Taxes
 For the Test Year Ending December 31, 2002

Line No.	(a)	Description	(b)	Amount	(c)
1		Total Operating Revenue	\$	89,054	
2		Total Operating Expense		(79,334)	
3		Synchronized Interest		(7,293)	
4		Net Income Before Taxes	\$	2,427	
5		Unitary Rate		1.8763%	
6		State Income Tax at Unitary Rate (Line 4 x Line 5)	\$	46	
7		Net Income Before Federal Income Tax	\$	2,381	
8		Federal Income Tax Rate		34.0000%	
9		Federal Income Tax (Line 7 x Line 8)	\$	810	
10		State Income Tax Per Staff (Line 6)	\$	46	
11		State Income Tax Per Company		130	
12		Adjustment	\$	(84)	
13		Federal Income Tax Per Staff (Line 9)	\$	810	
14		Federal Income Tax Per Company		1,276	
15		Adjustment	\$	(466)	
Source:					
Lines 1&2					
Line 3					
Line 5					
Line 8					
Lines 11, 14					
Schedule 1.1, Column B					
Company Schedule B					
Schedule 1.9, Page 2, Line 3					
Company Worksheet W/P (h)					
Company Schedule B, with deferred taxes reclassified per amounts in trial balance					

Cherry Hill Water Company
 Adjustment to Income Taxes
 For the Test Year Ending December 31, 2002

Line No.	Description	Amount
(a)	(b)	(c)
1	Unitary Tax Rate for 1999	1.5014%
2	Unitary Tax Rate for 2000	2.2512%
3	Unitary Tax Rate for Test Year	1.8763%

Source:

Line 1 Schedule 1.9, Page 3, Line 25
 Line 2 Schedule 1.9, Page 4, Line 25
 Line 3 (Line 1 + Line 2)/2

Cherry Hill Water Company
Adjustment to Income Taxes
For the Test Year Ending December 31, 2002

Calculation of Unitary Tax Rate for the Year 1999

Line No.	Description	Federal Taxable Income	State Income Tax	State Taxable Income	Gains on Sale of Assets	Adj. State Taxable Income
(a)	(b)	(c)	(d)	(e)	(f)	(g)
1	Apple Canyon	\$ 22,327	\$ 2,466	\$ 24,793		\$ 24,793
2	Camelot	38,435	2,845	41,280		41,280
3	Cedar Bluff	3,694	217	3,911		3,911
4	Charmar	4,197	298	4,495		4,495
5	Cherry Hill	21,757	1,805	23,562		23,562
6	Clarendon	25,588	1,727	27,315		27,315
7	County Line	7,806	714	8,520		8,520
8	Del Mar	4,048	330	4,378		4,378
9	Ferson Creek	53,779	2,897	56,676		56,676
10	Galena Territory	131,694	9,083	140,777		140,777
11	Great Northern	3,702	65	3,767		3,767
12	Harbor Ridge	20,780	2,296	23,076		23,076
13	Killamey	1,741		1,741		1,741
14	Lake Holiday	92,793	6,223	99,016		99,016
15	Lake Marian	29,775	2,884	32,659		32,659
16	Lake Wildwood	63,310	4,533	67,843		67,843
17	Medina	49,390	5,202	54,592		54,592
18	Northern Hills	77		77		77
19	Valentine	11,124	1,369	12,493		12,493
20	Walk-Up Woods	11,634	1,174	12,808		12,808
21	Whispering Hills	96,818	6,230	103,048		103,048
22	Utilities, Inc.	3,010,016	70,746	3,080,762	(984,753)	2,096,009
23	Total	\$ 3,704,485	\$ 123,104	\$ 3,827,589	\$ (984,753)	\$ 2,842,836
24	Illinois Tax Liability					\$ 42,662
25	Unitary Rate					1.5014%

Source:

Lines 1-22
Line 24
Line 25

Provided by the Company
Utilities, Inc. tax return
Line 24/Line 23

Cherry Hill Water Company
Adjustment to Income Taxes
For the Test Year Ending December 31, 2002

Calculation of Unitary Tax Rate for the Year 2000

Line No.	(a)	(b)	(c)	(d)	(e)	(f)	(g)
	Description	Income	Federal Taxable Income	State Income Tax	State Taxable Income	Gains on Sale of Assets	Adj. State Taxable Income
1	Apple Canyon	\$	34,542	\$	1,679	\$	36,221
2	Camelot		7,327		418		7,745
3	Cedar Bluff		5,651		607		6,258
4	Charmar		2,275		149		2,424
5	Cherry Hill		17,511		1,246		18,757
6	Clarendon		27,828		1,920		29,748
7	County Line		7,251		503		7,754
8	Del Mar		3,906		283		4,189
9	Ferson Creek		43,434		3,103		46,537
10	Galena Territory		133,547		9,546		143,093
11	Great Northern		8,017		452		8,469
12	Harbor Ridge		19,386		2,246		21,632
13	Killarney		8,079		439		8,518
14	Lake Holiday		98,850		8,021		106,871
15	Lake Maran		19,940		1,411		21,351
16	Lake Wildwood		31,986		4,597		31,986
17	Medina		44,222		1,507		48,619
18	Northern Hills		(1,507)		660		7,547
19	Valentine		6,887		1,000		12,268
20	Walk-Up Woods		11,268		6,797		125,619
21	Whispering Hills		118,822		718,570		740,588
22	Utilities, Inc.		1,367,592		102,452		1,434,687
23	Total		\$	\$	\$	\$	\$
24	Illinois Tax Liability						
25	Unitary Rate						

Provided by the Company
Utilities, Inc. tax return
Line 24/line 23

Source:
Lines 1-22
Line 24
Line 25

Cherry Hill Water Company
 Adjustment to Health Insurance Expense
 For the Test Year Ending December 31, 2002

Line No.	Description (a)	Amount (b)	Source (c)
1	Pro forma health insurance expense per Staff	\$ 2,790	Note 1
2	Pro forma health insurance expense per Company	<u>4,533</u>	Company workpaper e
3	Staff Proposed Adjustment	<u>\$ (1,743)</u>	Line 1 - line 2
<u>Note 1:</u>			
	2002 Apple Canyon health insurance expense	\$ 2,191	Company workpaper e
	Pro forma increase per Staff	<u>27.34%</u>	Schedule 1.10, page 2, line 11
	Pro forma health insurance expense per Staff	<u>\$ 2,790</u>	

Cherry Hill Water Company
Adjustment to Health Insurance Expense
For the Test Year Ending December 31, 2002

Line No.	Description (a)	Amount (b)	Source (c)
	<u>Water Service Corp. Balance at 6/30/2003:</u>		
1	Health Insurance Premiums	\$ 225,088	Company response to DLH-8.01
2	Dental Premiums	10,830	Company response to DLH-8.01
3	Health Insurance Reimbursements	1,204,228	Company response to DLH-8.01
4	Health Costs and Other	20,432	Company response to DLH-8.01
5	Dental Insurance Reimbursements	68,283	Company response to DLH-8.01
6	Employees Insurance Deductions	<u>(237,728)</u>	Company response to DLH-8.01
7	Total	\$ 1,291,133	
8	Average 2003 monthly expense	\$ 215,189	Line 7 divided by 6
9	Annualized 2003 total expense	\$ 2,582,266	Line 8 * 12
10	2002 total expense	\$ 2,027,835	Provided by Company
11	Percentage change	<u>27.34%</u>	(Line 9 / line 10) - 1

Cherry Hill Water Company
 Adjustment to Rate Case Expense
 For the Test Year Ending December 31, 2002

Line No.	Description (a)	Amount (b)	Source (c)
1	Rate case expense per Staff	\$ 792	Note 1
2	Rate case expense per Company	<u>1,575</u>	Company workpaper d
3	Staff Proposed Adjustment	<u>\$ (783)</u>	Line 1 - line 2
<u>Note 1: Water Service Personnel hours</u>			
	Capitalization rate-SML	\$ 51	Company workpaper d
	SML estimated hours per Staff	<u>5</u>	
	SML estimated cost per Staff	<u>\$ 255</u>	
	Remainder of rate cases expenses unchanged by Staff	\$ 3,704	Company workpaper d
	Total rate case expense per Staff	<u>\$ 3,959</u>	
	5-year amortization period	<u>\$ 792</u>	

Docket No. 03-0401
ICC Staff Exhibit 1.0
Schedule 1.12

Cherry Hill Water Company
Adjustment to Monthly Billing Expense
For the Test Year Ending December 31, 2002

Line No.	Description (a)	Amount (b)	Source (c)
1	Monthly Billing Expense adjustment per Staff	\$ 994	Company response to DLH-3.06
2	Monthly Billing Expense adjustment per Company	<u>1,118</u>	Company workpaper c
3	Staff Proposed Adjustment	<u>\$ (124)</u>	Line 1 - line 2

Docket No. 03-0401
ICC Staff Exhibit 1.0
Schedule 1.13

Cherry Hill Water Company
Adjustment to Deferred State Income Taxes
For the Test Year Ending December 31, 2002

Line No.	Description (a)	Amount (b)	Source (c)
1	Deferred State Income Taxes per Staff	\$ (94)	Company response to DLH-2.05
2	Deferred State Income Taxes per Company	0	Schedule B
3	Staff Proposed Adjustment	<u>\$ (94)</u>	